DRAFT FOR PUBLIC COMMENT

West Coast Governors' Global Warming Initiative

State Fleet and Transportation Issues

Working Group 1 Report
April 13, 2004

Commitment Statement

The three States are committed to pursue collective actions that Washington, Oregon, and California state governments can take in the area of state fleets and transportation that will lead to reducing the release of greenhouse gases ("GHG"). We agree that the following actions are first in line to be pursued, but expect that other issues can and will arise and will be considered at an appropriate time.

1. Use the states' combined purchasing power to reduce petroleum dependence by obtaining fuel-efficient vehicles and low-rolling resistance tires for motor pool fleets. The intention is not only to improve pricing and other factors for the states' purchases, but to have a positive impact on the market for efficient vehicles and replacement parts.
2. Seek a change in the implementation of the federal Energy Policy Act of 1992, which currently excludes hybrid vehicles as an allowable mechanism for compliance with the alternative fuels in state fleets requirement.
3. In cooperation with Working Group #6, promote alternative fuel and alternative fuel vehicle availability and infrastructure, including hydrogen and hydrogen-fueled vehicles.
4. Coordinate emission standards for fleet vehicle specifications.
5. Develop a model "Green Fleet" Policy Statement that describes policies and/or standards that consider best practices for fleets in a comprehensive way.

Problem Statement And Opportunity

Transportation and the fossil fuel used in the process accounts for 33 percent[1] of the release of GHGs nationally. The primary strategies for decreasing GHG emissions from the transportation sector include increasing fuel efficiency and decreasing vehicles miles traveled through improved land use planning and development of alternatives to single-occupancy vehicle travel.

Each of the states maintains a substantial fleet of light duty vehicles, numbering about 73,000 for California, 7,400 for Oregon and 13,000 for Washington. While the operation of state fleets represents a fraction of the overall contribution by the transportation sector, fleets nonetheless represent a potentially pivotal opportunity for leveraging broader change. By assuming a leadership position in modeling best practices, states can leverage other important benefits, such as building market share for new technologies and increasing availability to other consumers. This working group focused initially on opportunities for combined procurement of hybrid electric vehicles and low rolling resistance tires, but also considered a range of possible other activities in which a collaborative effort might yield significant benefits.

[1] U.S. DOE EIA, "Emissions of Greenhouse Gases in the United States," 2001.

These included such options as addressing the procurement limitations of the federal Energy Policy Act of 1992, establishing a three-state Green Fleet Policy with numerical or percentage emission reduction targets, multi-year vehicle purchase contracts, modifications in procurement specifications to give bonus points to high fuel-efficiency vehicles, and modifications of state contracts with rental car companies to ensure that alternative fuel, fuel efficient and hybrid vehicles are available.

Background

A. Current Situation for Hybrid Procurement

All three West Coast states already have contracts in place to enable the procurement of hybrid-type vehicles. To date, California has purchased 283 hybrid electrics for the state fleet, Oregon 83 and Washington 160. These contracts are established annually at the state level using a centralized competitive bidding environment. The contract itself can be used as a "tool" to allow quick, simple, and cost effective procurements for all state agencies, boards, and departments, as well as all local city and county governments. The contract does not, however, require the purchase of these vehicles; rather it makes these vehicles available if the fleet manager decides to acquire them.

Due to the newer technology and limited production of hybrid vehicles, the cost to purchase one is still relatively high compared to an equivalent sized internal combustion engine (ICE) vehicle. (For example, the Honda Civic Hybrid costs about $19,000 vs. Chevrolet Cavalier ICE costing about $11,000) By using the Western States combined purchasing power, the cost of these hybrid vehicles should come down. How much is unknown.

Currently, the two manufacturers with hybrids available in dealers' showrooms, Toyota and Honda, are selling the vehicles as fast as they can make them, and still have waiting lists. This suggests that the strategy of making mass purchases by combining the three states' procurements will be ineffective, as manufacturers would appear to be simply foregoing profit margin on sales that are all but guaranteed to occur. After considering this issue carefully, the Working Group feels that there is value in proceeding with the mass procurement because:

- The supply shortage is expected to be a short-term situation, as manufacturers will undoubtedly work hard to meet the unexpectedly high demand;
- Automobile contracts are on one-year cycles, and efforts initiated now will take some time to be felt in the market; and
- Manufacturers may well be willing to offer a discount to the states in this situation due to the marketing value to them to be included in the high profile of the West Coast Governors' Global Warming Initiative.

B. Low Rolling Resistance Tires

While rolling resistance has been demonstrated to have a significant effect on fuel economy (anywhere from 1.5- 6 mpg), replacement tire manufacturers do not routinely provide these data. Additionally, the relationship between rolling resistance and its impact on other characteristics, such as tread wear and traction, has not been thoroughly tested or quantified. California is conducting a study that will test a number of tires and provide comprehensive data states can use to set specifications, although final results are not expected until 2005. Until the completion of this

study, the states have agreed to request data on rolling resistance from prospective bidders as a signal that we are interested in the data and also possibly to provide more data for California's study project.

C. EPACT

The Energy Policy Act of 1992 ("EPAct") creates challenges for organizations subject to its rules to bring a greater percentage of hybrid electric vehicles into their fleets. The EPAct was passed to accelerate the use of alternative fuels in the transportation sector by requiring certain public fleets to purchase vehicles capable of running on alternative fuels. All federal and state fleets that own, operate, lease or control at least 50 light-duty vehicles (8,500 lbs or less) in the US and who operate those vehicles within certain metropolitan areas are required to comply. Currently, 75 percent of these light duty fleets must be alternative fuel capable.

The EPAct requires the purchase of vehicles which are *capable* of using alternative fuels, but does not require that alternative fuel be used in these vehicles. Since most states lack the infrastructure to support the use of alternative fuels (out of 178,000 fuel stations across the nation, only 200 provide alternative fuel), most are complying through the use of 'flexible fuel vehicles,' which can be operated by either an alternative fuel or gasoline.

Currently, hybrid electric vehicles do not count as credit towards compliance, even though they can achieve fuel efficiencies nearly twice the current CAFE standards and can reduce greenhouse gas emissions from one-third to one-half of those from conventional vehicles. Several organizations and interest groups have been working towards a rule change to allow hybrid electric vehicles to count towards compliance. Such a rule change would be necessary before hybrids can be introduced in any substantial numbers in the three state fleets.

D. Cleaner Burning Fuels

Each of the three states has introduced alternative fueled vehicles into the state fleet, to varying degrees. Oregon has over 130 dedicated CNG vehicles and 175 E-85 (ethanol) flexible-fuel vehicles in the fleet, though these are currently fueled by petroleum. California currently has 1,994 bi-fuel CNG, 310 dedicated CNG, 15 electric, 1,607 bi-fuel propane, 1,194 E-85 flexible fuel vehicles, and 460 methanol flexible fuel vehicles for a total of 5,580 alternative fueled vehicles. Washington does not have any significant numbers of dedicated CNG vehicles or other dedicated alternative fuel vehicles, and the large percentage of E-85 flexible fuel vehicles in the fleet are fueled exclusively with petroleum.

Biodiesel is of growing interest in each of the three states, and its use is expected to increase significantly as procurement and infrastructure issues are resolved.

The three states are committed to coordinating our activities in this area and sharing information on issues that may arise related to each of these specific fuels and the vehicles that use them.

E. Other Automotive Issues

There are a number of related automotive issues that are well beyond the scope of this collaboration, yet while we are engaged in the process of re-thinking fleet operations, particularly in the context of developing a fleet policy document, they deserve attention. These issues involve

taking a comprehensive, systemic view of the environmental and social impacts of operating large fleets. Examples include recyclability, recycled content, use of lightweight materials, toxic air emissions, reduced or eliminated use of toxic substances, use of re-refined oil, and use of high-efficiency oil filters to extend service intervals.

Options

Options considered by this Working Group included:

1a. Combined purchasing for hybrids.

1b. Coordinate purchasing of low rolling resistance tires.

2. Address limitations of EPACT in pursuing purchase of hybrid vehicles.

3. Coordinate and set maximum emission standards for state vehicle purchases.

4. Develop a model "Green Fleet" Policy Statement leading to the development of standards that consider best practices for fleets and garages in a comprehensive way, working with various state agencies and including medium and heavy duty vehicles.

Pros and Cons of Options Described Above

Some of the actions will have direct impacts, such as reduced fuel use in the states' fleets, and indirect impacts, such as leading by example and improving the public's response to buying hybrid vehicles.

Political Considerations

These measures have a moderate degree of controversy associated with them. The presence of the three Governors will bring a media spotlight to the subject, and some criticism as well as praise for their actions. There are stakeholders in the various fossil fuel industries that might see their interests as being adversely affected. For example, the California Energy Commission and the Air Resources Board recently published a report on petroleum dependence, calling for a 15 percent reduction in the use of petroleum-based transportation fuels. The report was criticized by the Western States Petroleum Association as having a dampening effect on the willingness of oil companies to invest in expanding refinery capacity in the already-constrained West Coast area. Presumably such investments would increase supplies, lower prices.

All of the major oil companies have subsidiaries that are positioning their parent companies to be major participants in a hydrogen economy. These companies, as well as their traditional fossil fuel corporate brethren, can and should be consulted in the process.

Automobile manufacturers are soon bringing a number of new hybrid models to market and are expected to be anxious to share information with us about their new products.

Likewise, tire manufacturers have a wealth of data on the performance of various models of tires that has not been widely distributed, and they will be a valuable source of information. Other organizations are expected to be helpful as well, such as the National Conference of State Fleet Administrators.

Fiscal or Legislative Implications

There could be minor short-term costs for program development staff time and probable cost premiums for qualifying vehicles or parts. How much of a cost premium will depend on the scope of actions eventually taken. Long term cost savings over the alternative of continuing on a petroleum track are expected, and the quantification of these will be among the tasks the Working Group will address.

In addition to possible appropriations, a possible outcome of the work of the group will be recommendations for legislative policy bills, coordinated between the three states.

Possible Recommended Actions

A. SHORT TERM (completion by September 2004).

1. Purchase model year 2004 hybrid vehicles through a three-state, high-volume, competitive process that features:
   - Uniform procurement specifications.
   - Options for additional state governments, and local governments of the three states, to use the resulting price agreement.

2. Coordinate purchasing of low rolling resistance tires
   - Jointly develop a statement to be included in replacement tire procurements requesting supplier information about low rolling resistance tires, and advising suppliers of the three states' intent to include a low rolling resistance standard in tire specification beginning in 2006.

3. Explore options to address limitations of EPACT in pursuing purchase of hybrid vehicles. Options should include:
   - Petition the U.S. Department of Energy for an exemption from the alternative fuels requirement of the Energy Policy Act of 1992 with respect to the purchase of hybrid automobiles.
   - Work with governors' Washington D.C. offices and our congressional delegations to amend EPACT or adopt a rule change.

4. Develop a model "Green Fleet" Policy Statement that identifies best practices for fleets and garages in a comprehensive way, including medium and heavy duty vehicles, addressing:
   - improving fuel efficiency
   - emission of air toxics
   - recyclability
   - use of toxic components, and

- maintenance issues

B. LONGER TERM (completion between September 2004 and September 2005)

1. Expand and extend hybrid vehicle procurement by:
   - Enlisting additional governments, and inserting their purchasing volumes, into the procurement process. This could include some or all of the members of the Western States Contracting Alliance (WSCA).
   - Developing specifications that include life-cycle costing and emissions credits.

2. Low rolling resistance tires
   - Jointly develop a common specification for replacement tires that includes a minimum acceptable standard for rolling resistance balanced with other salient characteristics needed to describe adequately acceptable replacement tires.
   - Jointly cooperate in the procurement of tires using an agreed-to minimum standard for rolling resistance beginning in 2006.

3. Coordinate, and set maximum emission standards for state vehicle purchases
   - Encourage all three West Coast states to adopt California's Green Procurement Specifications for vehicle emissions.
   - Make a commitment to purchase "best in class" vehicles, based on their fuel economy or emission rating.